



Municipality of the County of Kings

Asset Retirement Obligations

Policy Category	Finance	Most Recent Amendment	-
First Council Approval	TBD	Future Review Date	Approval + 5 Years

1. Purpose

The Municipality of the County of Kings recognizes accounting for Asset Retirement Obligations as a relevant determinate of an asset’s full life cycle cost to the Municipality. Asset Retirement Obligations, which result from acquisition, construction, development, or normal use of Tangible Capital Assets, must be predictable, likely to occur, and unavoidable.

This Policy establishes the accounting treatment for Asset Retirement Obligations such that users of the financial report can discern information about these assets and their end-of-life obligations. The principal issues in accounting for AROs is the recognition and measurement of these obligations.

2. Scope

This Policy applies to the Municipality as a Government Reporting Entity as defined from time to time by the Public Sector Accounting Board (PSAB) related to the boards, commissions, agencies and other organizations deemed to be controlled by the Municipality, and includes:

- Assets with legal title held by the Municipality;
- Assets controlled by the Municipality; and
- Assets that have not been capitalized or recorded as Tangible Capital Assets for financial statement purposes.

3. Definitions

- 3.1 **Accretion Expense:** the increase in the carrying amount of a liability for Asset Retirement Obligations due to the passage of time;
- 3.2 **Asset Retirement Cost:** the estimated amount required to retire a Tangible Capital Asset;
- 3.3 **Asset Retirement Obligation (ARO):** a legal obligation associated with the retirement of a Tangible Capital Asset as defined by PSAB from time to time;
- 3.4 **Materiality (Material):** judged in relation to the reasonable prospect of its significance in the making of assessments and judgments by the users of financial statements. Materiality is a matter of professional judgment in the circumstances. An item would be considered Material if it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

- 3.5 **Tangible Capital Asset (TCA):** non-financial asset having physical substance that: are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance, or repair of other Tangible Capital Assets; have useful economic lives extending beyond an accounting period; are to be used on a continuing basis; and are not for sale in the ordinary course of operations.
- 3.6 **Promissory Estoppel:** the principle that a promise made without consideration may nonetheless be enforced to prevent injustice if the promisor should have reasonably expected the promisee to rely on the promise and the promisee did actually rely on the promise to their detriment.

4. Policy Statements

Application

- 4.1 The Municipality shall determine TCA retirement obligations from various sources, including but not limited to: government legislation, contracts, court judgments, lease arrangements, or a legally enforceable obligation under the doctrine of Promissory Estoppel.
- 4.2 The legal obligations associated with retirement of TCAs controlled by the Municipality will be recognized as a liability in the financial records of the Municipality, in accordance with Public Sector Accounting Standard PS3280 Asset Retirement Obligations. The Municipality shall adopt PS3280 for fiscal years beginning on and after April 1, 2022.

Recognition

- 4.3 A liability for AROs shall only be recognized when, as at the financial reporting date, all the following criteria have been met:
- there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
 - the past transaction or event giving rise to the liability has occurred;
 - it is expected that future economic benefits will be given up; and
 - a reasonable estimate of the amount can be made.
- 4.4 The estimate of the liability should be based on requirements in existing agreements, contracts, legislation or legally enforceable obligations, and technology expected to be used in asset retirement activities.
- 4.5 The estimate of a liability should include costs directly attributable to asset retirement activities. Costs should also include post-retirement operation, maintenance and monitoring that are an integral part of the retirement of the TCA.

Directly attributable costs include, but are not limited to, payroll and benefits, equipment and facilities, materials, legal and other professional fees, and overhead costs directly attributable to the asset retirement activity.

- 4.6 Upon initial recognition of a liability for an ARO, the Municipality shall recognize an Asset Retirement Cost by increasing the carrying amount of the related TCA by the same amount as the liability.

- 4.7 Where an obligation relates to an asset which is no longer in service, and not providing economic benefit, or relates to an item not recorded by the Municipality as an asset, the Asset Retirement Cost shall be expensed upon initial recognition of the liability.
- 4.8 The capitalization thresholds established in policy FIN-05-012 Tangible Capital Assets shall be applied to AROs to be recognized.
- 4.9 Recorded AROs should be limited to those obligations that are considered Material to the Municipality's consolidated financial statements and a risk-based approach for evaluating AROs should be considered in circumstances where assets are of a comparable nature and have similar characteristics.

Subsequent Measurement

- 4.10 Each fiscal year, existing AROs shall be assessed for any changes in expected cost, term to retirement, or any other changes that may impact the estimated obligation. In addition, any new obligations identified shall be assessed.
- 4.11 Revisions to the timing, amount of the originally estimated cash flows, or discount rate, should be treated as a change in accounting estimate and recorded as part of the cost of the related TCA.
- 4.12 Period-to-period changes in the liability for AROs due to the passage of time shall be recorded as an Accretion Expense.
- 4.13 The capitalized Asset Retirement Costs shall be amortized in a rational and systemic manner, consistent with the amortization method of the underlying asset, over the useful life of the TCA.

Presentation and Disclosure

- 4.14 Financial statement disclosure should include the following information:
 - a general description of the liability for an ARO and the associated TCA (or a component thereof);
 - the amortization method used for the Asset Retirement Costs;
 - the basis for the estimate of the liability, including the estimated total undiscounted expenditures, the time period over which the undiscounted expenditures are to be incurred, the estimated timing of settlement of these expenditures and the discount rate used;
 - a reconciliation of the beginning and ending aggregate carrying amount of the liability showing separately the changes attributable to:
 - the liability incurred in the current period;
 - the liability settled in the current period;
 - the change resulting from the passage of time, i.e., Accretion Expense; and
 - revisions in estimated cash flows;
 - how any requirements for financial assurance and funding associated with AROs, if legally required, are being met;
 - when a reasonable estimate of the amount of an ARO cannot be made, that fact and the reasons therefor; and
 - the estimated recoveries.

4.15 When determining the level of detail to disclose, the Municipality should consider the usefulness of the information to readers in assessing the nature and extent of the liability for AROs.

5. Responsibilities

5.1 Council will:

- 5.1.1 ensure the Municipality has a current and comprehensive Policy for AROs; and
- 5.1.2 review and amend this Policy as required.

5.2 The Municipal Treasurer will:

- 5.2.1 implement and administer this Policy; and
- 5.2.2 identify and propose revisions to this Policy.

6. Amendments

Date	Amendments